

South Carolina Supreme Court Rules That Insurer May Depreciate Labor Costs In Calculating Actual Cash Value

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Answering a certified question, the South Carolina Supreme Court ruled that where a property policy does not define “actual cash value” (“ACV”), an insurer is entitled to depreciate the costs of embedded labor in calculating ACV. *Butler v. Travelers Home and Marine Ins. Co.*, 2021 WL 1900088 (S.C. May 12, 2021).

The operative insurance policies provided replacement cost value coverage in the event of property damage. Additionally, the policies permitted the policyholder to receive ACV instead of replacement cost value if the policyholder opted not to immediately repair the damaged property. The policyholders opted for ACV coverage, which Travelers calculated by using replacement cost less depreciation. The policyholders alleged that Travelers improperly depreciated both materials and the labor component of the cost of repair or replacement. The court disagreed.

The court noted that “embedded labor components” reflect labor costs that are “no longer separable from the costs of materials” (*e.g.*, the cost of a new roof reflects both the materials and embedded labor costs of removing the old roof and installing the new one). The court therefore held that it is “impractical, if not impossible, to include depreciation for materials and not for labor to determine the ACV of the damaged property.”

As reported in previous Alerts, courts across jurisdictions have issued mixed decisions as to whether labor costs may be depreciated in calculating ACV. See [July/August](#), [April](#), [March 2020 Alerts](#), [April 2019 Alert](#), [March 2017 Alert](#). This month, the Illinois Supreme Court heard oral arguments on this issue in *Sproull v. State Farm Fire & Cas. Co.*, No. 126446 (Ill. May 19, 2021).



